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ABSTRACT

The Province of New Brunswick, Canada, as part of a mammoth reshuffling of provincial-local relationships, established an Equal Opportunity Program and took over the entire burden of financing public elementary and secondary education on January 1, 1967. On May 20, 1971, at a conference on State financing of public schools, questions about the workability and impact of the New Brunswick plan were explored by 70 representatives of Federal, State, and local government; civic and professional organizations; and interest groups from around the country. This report presents the results of that conference. Chapter one describes the Canadian experience as presented by four New Brunswick participants who were either involved in the enactment and implementation of the plan or who are now members of the current administrating government. Succeeding chapters discuss the financing situation in Delaware; present proposals for State funding of schools in Michigan and Minnesota; and offer general arguments surrounding the State takeover of school financing in this country. (Author/JF)

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Who Should Pay For Public Schools?

Report of The Conference on State Financing of Public Schools

May 20, 1971
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Washington, D.C.

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Preface

One of the responsibilities of the Advisory Commission on Intergovernmental Relations, as stated by Public Law 86-380 under which the Commission was created in 1959, is to "encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation."

The financing of elementary and secondary education in the United States is most assuredly such a problem. It takes almost one-third of all the funds spent by State and local governments. And, although school enrollments presumably have leveled off, rising prices, higher teacher salaries and demand for improved educational methods will tend to push public school spending even higher. The question is not only one of how much to spend on schools and how to raise the revenues, but of spending the money where there is the greatest need and in a way that will get the most results.

With this in mind, ACIR sponsored the Conference on State Financing of Public Schools, held in Washington, D.C., on May 20, 1971. The Commission wishes to express its appreciation to the Ford Foundation for providing the funds necessary to bring a representative group of government leaders, educators and interest group representatives from throughout the country together for the conference and to publish this report.

ROBERT E. MERRIAM
Chairman

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Introduction

Since 1969, the Advisory Commission on Intergovernmental Relations has advocated State assumption of substantially all funding for public elementary and secondary schools.

Lifting the burden of school financing from local units of government would, the Commission feels, be the best way to assure equality of educational opportunity and, at the same time, ease the pressure on the property tax.

ACIR recognizes that school costs have been claiming a greater and greater share of property tax revenues at a time when local governments, especially the major cities, are increasingly hard-pressed for funds to pay for police, fire, sanitation, public health and other "custodial-type" services.

Furthermore, because of wide differences between districts in the cost of education and in ability and willingness to pay, local school financing does not provide all public school students an equal opportunity to learn, even with State school aid equalization formulas.

The Commission's recommendations provided the background for the one-day Conference on State Financing of Public Schools that is the subject of this report.

Constitutionally, education is the responsibility of State government, but it has traditionally been a local function. General feeling runs high in favor of local control, which in the minds of many requires a substantial local contribution of funds. In the average school district, local government pays slightly more than one-half the cost and the State about 40 percent, with the remainder coming from Federal funds.

Local governments raise most of their own revenues – seven of every eight dollars – from the property tax. And the share of every local property tax dollar claimed by education has grown from about one-third in 1942 to more than one-half in 1969, leaving cities and counties an ever smaller share to use for other local services.

The quality of education provided in a given community has a high "spillover" benefit – far greater than that of any other local service – to residents of other communities and other States. Thus, ACIR feels that statewide taxes – of a type more responsive to economic growth, such as sales and income taxes – should provide the major support for education and the local property tax should be used primarily for the more clearly local services, such as police and fire protection and garbage removal.

Despite efforts to equalize educational opportunity through various State aid formulas, a wide disparity in the quality of schools exists between districts. Differences in such things as teacher salaries and other costs, the home and family backgrounds of the students and the relative wealth of the districts are among the factors that frequently thwart attempts at equalization.

Big-city school districts are further handicapped in the financing of education by the "municipal overburden" which afflicts nearly every major American center city.

In a major city, the cost of police and fire protection, sanitation, streets, public health and other services may eat up as much as two-thirds of all local tax revenues, leaving only one-third for education. Many suburban districts, with lighter demands for such services, can put two-thirds of their property tax revenues into schools. Because of this municipal overburden, a small suburban district and a large central city district may have the same amount of taxable property value behind each student, but the city district would not be able to spend nearly as much per pupil for education. Yet the central city districts where municipal overburden is most acute have the greatest concentrations of disadvantaged children who are the most expensive to educate.

The Advisory Commission on Intergovernmental Relations

examined the problem of financing elementary and secondary education in its 1969 study, *State Aid to Local Government* (A-34). It concluded:

> In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recomends that each State adopt as a basic objective of its long-range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policy-making authority.

At present, the State share of education funding varies from 8.9 percent in New Hampshire to 100 percent in Hawaii, which has a centralized State-financed and State-administered school system. Several other States – among them New Mexico, North Carolina, Delaware and Louisiana – already pay a substantial portion of public school costs.

ACIR suggests that localities be authorized to supplement the State allotment by perhaps 10 percent – but not by so much that the equalization function of State financing would be undermined. Such enrichment would permit local initiative and innovation; retention of local policy-making control would assure that public education remains responsive to the people.

State assumption of the responsibility for financing local schools has thus become a major part of ACIR's program to restore fiscal balance to our federal system. Other Commission recommendations call for Federal revenue sharing, Federal take-over of welfare costs and strengthening of State-local tax structures.

Canada, with a somewhat similar federal system, has accomplished some of these reforms. ACIR studied the Canadian experience with tax credits, public assistance reform, regional government and financing of education. The Commission's findings are presented in an information report, *In Search of Balance: Canada's Intergovernmental Experience* (M-68).

One Canadian province, New Brunswick, took over the funding of public schools as part of a major reorganization in 1967. Although differences exist between the political systems of the United States and Canada and New Brunswick's economic situation differs from that of many States, the experience of that Canadian province merits special attention.

By the spring of 1971, two years after ACIR adopted its school financing recommendations, the problems the Commission found in 1969 had actually worsened. Many school systems, especially in the larger metropolitan centers, had been forced into deficit spending; others were leaving teaching positions unfilled, were unable to find funds for negotiated salary increases, or were curtailing activities. The same kinds of fiscal problems continued to hamstring the cities in their efforts to provide basic services for the public health and safety of their residents.

Aided by a grant from the Ford Foundation, the Commission sponsored a conference in Washington, D.C., on May 20 to examine the New Brunswick program and the situation in various States in the light of ACIR's school-funding recommendations. The conference brought together about 70 representatives of Federal, State and local government, civic and professional organizations and interest groups from around the country.

Chapter One of this report describes the Canadian experience as presented at the conference by four New Brunswick participants, two of whom were involved in the enactment and implementation of the program and two of whom are members of the government that administers it today.

Succeeding chapters deal with the situation in Delaware, which provides nearly three-fourths of the money for public schools; proposals for State funding of schools in Michigan and Minnesota, and general arguments surrounding State takeover of school financing in this country.

An epilogue brings the story up to early fall 1971.

Chapter One

The New Brunswick Experience

The Province of New Brunswick, Canada, established an Equal Opportunity Program and took over the entire burden of financing public elementary and secondary education on January 1, 1967, as part of a mammoth reshuffling of provincial-local relationships.

How well has the plan worked? What has been its impact on education in the province? On the taxpayer? What flaws, what problems have developed? These questions were explored at the May 20, 1971 Conference on State Financing of Public Schools.

The Premier of the Province, Richard B. Hatfield, described the New Brunswick experience in a paper presented to the conference for him by his Principal Secretary, Frederic J. Arsenault. Along with Mr. Arsenault, James F. O'Sullivan, Chairman of the Cabinet Secretariat, represented the conservative government which has been in office since November 1970.

Conference spokesman for the liberal government that was in power at the time of the change was W.W. Meldrum, Q.C., an opposition member of the New Brunswick legislative assembly who was provincial Minister of Education when the Equal

Opportunity Program was born. P.J.H. Malmberg, a University of New Brunswick professor who served as Director of Curriculum and Research in the provincial department of education from 1962 to 1969, described the impact of the program on curriculum and instruction.

The Province

New Brunswick is one of the Maritime Provinces on the Atlantic coast of Canada, east of Maine. Eighth among Canada's ten provinces in both size and population, it is slightly smaller in area than Maine or South Carolina and its 630,000 population is about equal to that of North Dakota. Fewer than one-half of the people of New Brunswick live in cities and towns.

Both English and French are official languages in New Brunswick, as elsewhere in Canada, and many residents speak both. About 40 percent of the people in the province are of French ancestry and about 10 percent speak only French. Historically, members of the French-speaking minority have suffered economically and socially – having been relegated to the poorest land, the meaner jobs and a meager education.

"As a matter of fact, for a long time, a very long time, if the Catholic Church had not been interested in education and taken the responsibility for education in their communities without public aid, there would have been parts of New Brunswick, mostly French-speaking parts, that would have had no education facilities whatsoever," Mr. Meldrum explained.

Prior to the Equal Opportunity Program, New Brunswick had an educational system much like the rest of Canada and quite similar to public school systems in the United States.

The Canadian Norm

Canada's government has a federal structure with three levels – national, provincial and local – patterned after the United States form and a cabinet or parliamentary system of operation taken from that of Great Britain.

Thus, in many respects the government in Canada or one of its provinces is much like that in the United States, but there are key political and administrative differences.

Both countries have major political parties, but the parlia-

mentary system fosters much tighter party discipline.

In New Brunswick, as in other provinces, the premier is the head of the government; he is also a member of the legislative assembly where he is leader of the majority party. His cabinet ministers also come from among the majority party's members in the legislative assembly. Such a system unites the legislative and executive branches of the government in contrast with the strict separation of legislative and executive powers in the United States.

The British North America Act, the Canadian equivalent of the U.S. Constitution, makes education a provincial responsibility, just as education in the United States is considered a State responsibility. In most of the provinces, administration of public schools is delegated to local boards.

Property taxes are the principal local source of school support. The provinces in Canada have contributed more heavily to local school support than have the States in the United States. In 1967, Canadian provinces contributed 52 percent of school funds, the local communities 42 percent. In the United States in the same year, States contributed only 39 percent, the localities 53 percent. The Canadian government provides about six percent of total school funds, whereas the Federal Government contributes eight percent in this country.

One practical difference between federal-provincial relations in Canada and Federal-State relations in the U.S. is the "very large" amount of money transferred by the Canadian government to the provinces without conditions, Mr. O'Sullivan told the conference.

"We have gone far beyond any revenue sharing proposals [in the United States] which I am aware of. So much so that in New Brunswick, at the moment, of the province's revenues 40 percent are received from the federal government," he said.

The Origin of Equal Opportunity

The Equal Opportunity Program can trace its development back to 1962 when the provincial government appointed a Royal Commission to study the problems of provincial and municipal finance and taxation and recommend solutions.

Premier Hatfield explained the background in his conference remarks, as presented by Mr. Arsenault:

"In 1962, it was widely recognized in the province and by the two political parties that our municipal institutions were in

serious difficulties: in a province of 28,000 square miles with a population of approximately 600,000, predominantly rural, there were seven cities, 21 towns, 15 units of county government, 75 local improvement districts, 15 local administrative commissions, one village, one township, and 422 school districts; there were inequities in service, in standards, and in opportunities; there was a jungle of assessment and tax laws; in areas of the province, there was a crippling debt, near bankruptcy and demonstrable fiscal incapacity; there was a patchwork of laws for providing provincial assistance and for the provincial sharing of costs on various programs."

The province, rather than the localities, set educational standards, texts and curriculum. It controlled teacher training and in every respect, except actual school administration and finance, the province was supreme.

As Mr. Malmberg, former Director of Curriculum for the New Brunswick Department of Education, summed it up:

"While the provinces delegated considerable responsibility for the financing and administration of education – the so-called 'externa' – to local school districts, they have steadfastly maintained control of the 'interna' – curriculum. Only recently have there been signs of loosening up in some provinces of Canada."

With the schools depending heavily on the local property tax, property tax burdens varied widely from community to community. Ethnic distribution, as well as property tax geography, determined to a large extent a child's educational opportunity.

Provincial grants supplemented local school resources, but were not equalizing. The cities – by and large the more wealthy jurisdictions – received about $24 per capita from the province – while the rural areas, where the need was greater and the fiscal capacity lower, averaged $6 per capita. "It was the case of the rich get richer and the poor get poorer so far as the distribution of provincial assistance to local government is concerned," Mr. Meldrum noted.

Against this background, the Royal Commission on Finance and Municipal Taxation, headed by Edward G. Byrne, began its work in 1962. In its report, filed the following year, the Byrne Commission proposed vast changes. These were its recommendations, as seen through the eyes of Premier Hatfield:

"The Royal Commission in its report in 1963 concluded that the problems faced could not be solved by a mere allocation of tax fields and that a solution must be found in a reallocation of

provincial-municipal responsibilities and a reorganization of government structures. The Commission recommended that all general services to people (education, justice, health and welfare) be financed by and administered by the provincial government and that 'local' services (e.g., fire and police protection) be provided by local governments; the Commission recommended that the county unit of local government be abolished; it recommended that the provincial government take over all assessment and tax collection and adopt a system of equalization grants to municipalities. In a key recommendation, the Commission proposed that four administrative commissions be established in the fields of social welfare, hospitals, municipal affairs and schools. The recommendations were put forward as a 'package.' "

Mr. Meldrum, from his viewpoint as a member of the former government, further explained the Royal Commission's philosophy:

"The Royal Commission stated that its recommendations should be a package deal and that any degradation of or reduction in the program could bankrupt the province . . . The chairman of the Royal Commission had very little faith in politicians. He felt that no politician could possibly say 'no' to any demand of the voter particularly at election time . . . He said, in effect, if you do not establish the Commissions on Education, on Welfare, on Justice, on Health to administer this program, politicians are going to get under such pressures and they are going to say 'yes' so often that it is going to bankrupt the province. What he was saying is that if you put this in the hands of politicians you are in trouble."

The ensuing debates over the Equal Opportunity Program, both in and out of the legislative assembly, were "frequently heady, vexatious and pejorative," as Premier Hatfield described them. Mr. Meldrum recalled that the debates were "loud and lively and long." He said they were "divisive" to some extent but "a uniting factor" in another sense because they clarified the problems involved in implementing the new proposals.

The liberal government used direct mail advertising, radio and television appearances, speaking tours and newspaper advertising to win public support. There was little difference of opinion over the aims of the proposals, but the specific methods of achieving them were highly controversial.

The Program

As finally enacted in 1966 and put into effect on January 1, 1967, the legislation went far beyond educational finance. One provincial official has characterized it as "probably the greatest assessment and taxation upheaval to take place in any province of Canada." The legislation reorganized local governments, including school districts, and restructured the provincial-local tax system. It eliminated the personal property tax and other local "nuisance" type taxes, enacted a uniform province-wide real estate tax at an effective rate of $1.50 per $100 of market value determined by provincial rather than local assessors, and gave the province responsibility for all property tax collection, including add-ons for municipalities. The province took over support of education, justice, health and welfare.

One of the elements that helped sell Equal Opportunity to the people was the fact that it represented "a shift away from direct taxation as exemplified by property taxes . . . toward indirect taxation – the sales tax," explained Mr. Arsenault. "Property taxes especially went down."

As for educational structure, Equal Opportunity reduced the number of school districts from 422 to 33. It established a system of seven regions, each headed by a regional superintendent who reports to the provincial department, and 21 districts, each headed by a district superintendent who is the employee of the local school board.

The province, which had always been responsible for curriculum, retained that authority. In addition, the province sets salary schedules for teachers based on qualifications. The local school boards hire and fire the teachers, and choose the level of qualification and types of skills they want represented, within budget limits. In most districts, the province sets the budget after negotiations with the local school boards as to their needs and requirements. However, New Brunswick is experimenting with "bulk budgeting" – block grants – in a few districts.

Local school boards are permitted to supplement the provincial allocation, but must go through the provincial Minister of Education. The district proposes a supplementary program to the minister who publishes the relevant facts. If fewer than five percent of the voters of the district protest, the minister orders the program implemented and a higher real estate tax imposed in the district. If more than five percent of the voters protest, the measure goes to referendum.

Fiscal Dimensions

The Equal Opportunity Program was presented to the people *not* as tax relief, but as tax redistribution. The Commission had estimated it would cost an additional $7.6 million a year but that new revenue sources would pay for it.

As so often happens, cost estimates were low; the new sources have not paid for the program. Indeed, the government had to raise taxes in 1969. The general sales tax was raised from six to eight percent and the province's income tax was raised from 28 to 38 percent of the basic Canadian federal personal income tax liability. (A Canadian may credit the provincial personal income tax he has paid against the federal personal income tax he owes – up to 28 percent of his federal tax liability. Thus, the provincial income tax does not take any additional money out of the taxpayer's pocket unless it exceeds 28 percent.)

Despite these revenue measures, the province each year has found itself deeper in debt.

It has been estimated that the increase in the provincial debt for the first year of the program would be $9.7 million; it turned out to be $42 million. Over the entire period of Equal Opportunity to March 1971, the net debt increase attributable to schools and hospitals was estimated to be $65 million, according to Mr. Hatfield.

New Brunswick's tax rates are now among the highest in Canada; of the provinces, its debt burden is also among the heaviest.

As the Premier pointed out in his conference remarks, "The program of Equal Opportunity in New Brunswick is locked into an economy where there is an under-utilization of manpower, higher than average unemployment, relatively severe seasonal unemployment, a low level of per-capita income and of investment, high out-migration and severe welfare problems. Economic growth has not been keeping pace with the rate of increase in the cost of services or with anticipations."

Mr. Arsenault, Principal Secretary to the Premier, said later that New Brunswick's "ability to deal with these deeper social problems depends on how successful we are in strengthening the provincial economy and the tax base which supports our education system."

Further, Mr. O'Sullivan, who served as Secretary of the Byrne Commission and is Chairman of the Cabinet Secretariat of the present government foresaw a decline in school-funding pressures

and an increase in health and welfare costs.

"Looking ahead," he said, "at least at the problems of New Brunswick, we can anticipate that the pressures in the health and welfare field will become more pressing than the pressures in the education field. Sometime during the '70s the effect of the declining birth rate is going to be felt in education budgets. And we are now concerned with, I think, essentially a past problem – the growth of the education budget. I think that is going to level off."

Educational Issues

In addition to the financial problems, the major issues revolving around the Equal Opportunity Program are equality versus excellence in education, local autonomy and regional bureaucracy.

Equality versus Excellence. A central issue has been whether equalized education can reach the peaks of excellence that exist in some parts of an unequalized program. This issue is bound up closely with the local autonomy problem.

"In my view," said Mr. Malmberg, "provincial control of curriculum in New Brunswick has been unfortunate, as it has in other provinces in Canada. I think it has stifled diversity in education which is so essential to growth.

"The advent of Equal Opportunity in 1967 saw the resources of the entire province placed behind education and other services to people," Mr. Malmberg explained. "At the same time, the government had the opportunity to begin the transfer of curriculum from the provincial to the local level. It did not do so. It had taken over the complete responsibility in regard to the 'externa' of education, and it would have been an appropriate time to begin to transfer the responsibility for the 'interna' to the local area so that we had centralization for efficiency and equality, supposedly, and we'd have decentralization for diversity. That didn't happen. School districts which acted as innovators in curriculum prior to 1967 now are not able to do so. These districts usually spent a greater per-pupil amount on instructional development than other districts. Instructional funds are now distributed by the province on the same per-pupil basis to all school districts and they, plus economies, are minimal. The result is that in the 'lighthouse' districts there has been curriculum stagnation. The effects of Equal Opportunity on curriculum have been more a 'leveling

down' than an 'evening up.' "

Later, in answer to a question, Mr. Malmberg said he felt there had been some "leveling up" – better teachers, buildings and programs – in the rural and poorer urban districts during the first two or three years of Equal Opportunity. "Now, I think we are beginning to lose the dynamic and there is going to be a 'leveling down'," he added.

ACIR, in its study of the New Brunswick experience, found that it was generally the school officials in the wealthier districts who decried "leveling down" while school officials in the poorer districts were usually enthusiastic about the program.

Mr. Meldrum called concern that quality of education will be reduced under such a program "a fear of the few in better areas."

"It is illustrative," he said, "that one of those superintendents who has been citing 'leveling down' or saying that his district has not been going ahead, was asked by his school board whether he meant to say that 'our education is not better now than it was in 1967.' And he said, 'Yes, it is better. But it would have been more better. It would have improved faster if we had the local autonomy now that we had before 1967.' "

Local Control. Retention of local control is a goal sought by both parties in Canada and an objective of most of the proposals for State takeover of school financing in the United States.

It is generally concluded that if local school boards were freed of the burden of raising money, they would be able to concentrate on the important policy questions of improving education.

Mr. Malmberg disagreed. "It is no secret," he said, "that when school boards lost their fiscal independence in 1967 they felt that they had lost their manhood, for this independence to most school boards represented local control of education. The most significant decision-making function that they lost is control of raising money and determining how to spend it in education. It is my impression that it has been more difficult to get good people to serve on school boards since the advent of Equal Opportunity and that school boards have not taken their duties as seriously as they did previously. To retain local interest in schools, it is essential to have a large measure of local control. This is a challenge New Brunswick now faces."

Recognizing this problem, Mr. Hatfield said in his prepared remarks that the government intends to "provide the local boards with greater budgetary authority, to solicit more effectively their views on major matters and to involve their district participation

in the planning and development of school facilities."

One step in the direction of increased local autonomy would be "bulk budgeting" or block grants. After experimentation in two school districts, the government intends to make widespread use of this devise which would allot to the school district a block sum and permit the district to order its own priorities.

Both Mr. Hatfield, the present Premier, and Mr. Meldrum, the former education minister, agreed that the Equal Opportunity Program as such was not a significant issue in the 1970 election which brought down the liberal government. But Mr. Meldrum speculated that the conservative party's strong position in favor of greater local autonomy contributed to the election outcome.

Regional Bureaucracy. Also intimately connected with the problem of educational excellence and local autonomy is the regional bureaucracy. There are seven regional superintendents – civil servants reporting to the Provincial Department of Education – that form an intermediate tier between the province and local school districts.

Mr. Malmberg severely criticized the regional structure as it has been implemented:

"The regional set-up, intermediate between the government and local school districts, has not worked well in New Brunswick. It was conceived by the planners of Equal Opportunity as a service unit. Specialist services which schools required – e.g., guidance, special education, libraries, and so on – but which would be too expensive on a school district basis could be provided on a regional basis. The regional concept had, and I believe still has a real potential to exercise a professional leadership and consultative function. It could be a halfway house on the road to decentralization. With a few exceptions the original concept has not been realized."

Turn Back The Clock?

In light of the financial and administrative difficulties with the Equal Opportunity Program, the conference panel was asked whether they would like to turn back the clock, to undo the 1967 reorganization.

Mr. Arsenault noted the argument that not enough time has been given the program to enable full assessment of it. He continued: "Of course, how would one turn back, even if you want to. There are not 422 school boards to turn back to – there

are 33. There are no county governments. So if you wanted to give away some of the powers which were taken over you would first have to start by creating units you have abolished. Now I think it is one thing for politicians to argue about their taking over power, and it is a very different matter, indeed, when you are talking about politicians giving away power which they now have, particularly when some of them actually run the program.

"The differences did exist and there were very strong debates. It did go beyond the educational and other government policy issues – in certain cases it became a very personal type debate. But I don't think that the people of New Brunswick, want to sort of have a rehash of that at the present time. I think this is really the feeling of both parties – they ought to try to do something with the program as it exists while admitting that there are matters that have to be changed, amended, in the light of experience."

Mr. Meldrum concurred. "In New Brunswick terms there is no going back," he said. But he predicted that the program will move in the direction of more local enrichment, noting that the government already has moved to make it easier for parts of districts to have supplementary programs.

Recalling the problems that have beset the province since Equal Opportunity began and the Byrne Commission's concern about letting politicians run the program, Mr. Meldrum commented:

"Well, we are in trouble, but I suggest it wasn't totally the fault of the politicians. It is a lot of factors – geographic, ethnic, financial and the problems you have and we have."

In his prepared conference remarks, Premier Hatfield spoke for his government in a vein that indicated no turning back:

"It is apparent to us that Equal Opportunity in education is not yet firmly established in every section of the province; in some districts we still have a high drop-out rate; there is an urgent need to provide the range of vocational teaching services to reduce the drop-out rate and to ensure that students in the districts are adequately prepared to enter the labor market.

"The view that I have presented of Equal Opportunity is one in which rigorous effort must be made to ensure effective local participation; it is one in which rigorous effort must be made to provide the required economic base," the Premier concluded.

Chapter Two

The States' Dilemma

Although charged by their constitutions with providing public education, the States down through the years have delegated much of this responsibility to local governments – usually to single-purpose school districts – and have authorized them to levy property taxes to support education. In many places, particularly central cities, that tax base now is overburdened and cannot adequately support education in addition to providing sufficient funds for other local services. And the differences in educational quality are so flagrant they are under heavy attack.

What can the States do to meet the accelerating costs of elementary and secondary education? How can they improve the quality of bad education without reducing the excellence of good education? What can they do to make education responsive to the needs of the people?

One alternative is to shift responsibility for financing education away from the local property tax to a more progressive tax levied on a statewide base. The Governors of Michigan and Minnesota have proposed such a change in their States. But Delaware, over a 25-year period, has reduced the proportion of

State aid from more than 90 percent to about 7[illegible] percent to permit more local control and enrichment.

These and related points were debated at the Conference on State Financing of Public Schools. James L. Phelps, who helped shape the Michigan proposals as Assistant Director of the Governor's Commission on Educational Reform, described Governor William G. Milliken's approach. Francis M. Boddy, an economist and Chairman of the Minnesota Governor's Council of Economic Advisors, outlined Governor Wendell R. Anderson's program. Governor Russell W. Peterson of Delaware, then Chairman of the Education Commission of the States, offered his State's case history in a luncheon speech to the conference.

For Michigan, Excellence With Equity

The school-financing picture in Michigan was a bleak one as the 1970-1971 school year drew to a close. This is how Mr. Phelps, Governor Milliken's Administrative Assistant for Education, described it to the conference:

"In Michigan, we have a large number of teacher strikes every year. Many schools are going on half-day sessions because of lack of funds. Close to 100 school districts – one-sixth of the total number of school districts in Michigan – are deficit spending. Programs have been reduced substantially in a large number of districts. This year 5,000 teachers out of a labor force of 100,000 have been 'pink slipped.' They have been told that funds are not available for the fall. Many will not be given employment, unless the Governor's proposal goes through or there is a substantial increase in state revenue.

"Increasingly, there is more militancy with the districts saying that they will not assume the additional burden in the area of education."

Nearly six weeks earlier, Governor Milliken had sounded a note of alarm in his Special Message to the Legislature on Excellence in Education-Equity in Taxation. In that message, on April 12, the Governor said:

"The evidence of a mounting school crisis is upon us – in resistance to property tax increases for school operation – in rapidly escalating conflict between school boards and teacher organizations – in collective bargaining whip-saw effects that are forcing too many districts into deficit financing – in student disorders – and, above all, in growing public dissatisfaction with

our educational processes."

Governor Milliken said the objectives were clear, as outlined in September 1969 by his Commission on Educational Reform:

- Quality education for every child, no matter where he may live;
- A rational system of educational finance which will provide the resources needed at State and local levels to assure quality education;
- Equity of tax burden;
- Assessments to measure the results of the educational system and thus evaluate and improve it;
- A strong and accountable State Board of Education; and
- Local control over important matters of education concern, such as curriculum and personnel, already a long-standing tradition in the State.

Some progress had been made in the ensuing 18 months, especially in school district consolidation and a testing program, the Governor reported, but he warned: "The crisis is still with us, and it has grown worse."

Among the deficiencies he noted in his April 12 message were a wide disparity in resources for education in the various districts, ranging from about $500 to $1,200 per pupil, too much reliance on the property tax to finance school operating costs, and lack of adequate measurement of the effectiveness of present educational systems and methods.

Governor Milliken then made 15 proposals for educational reform in Michigan. In addition to school financing, they covered a wide range of problems, including better use of teachers and facilities, teacher certification, district consolidation, vocational education, local control, enrichment and compensatory education, citizen involvement and higher education.

To improve educational resources in Michigan, he proposed that the State (1) do away with the property tax for general school operating purposes and (2) distribute financial support per pupil in an equitable manner.

The property tax for education operations was averaging 25.7 mills statewide. The Governor called for a constitutional amendment to eliminate the levy, which would provide property tax relief of $1.118 billion – $618 million of it on individual property and $500 million for business. To make up the needed revenue, he proposed an increase in the personal income tax of 2.3 percentage

points and the adoption of a 2-percent value-added tax, the latter to raise additional revenue from business while keeping the corporate income tax rate low enough to protect Michigan's competitive position with other States.

"Because we cannot equalize educational resources immediately and because we cannot lower the support in any district," the Governor said in his message, "I recommend that an optional locally voted millage be allowed up to a maximum of six mills. Such millage should be equalized throughout the state so that each mill, in whatever district levied, will produce the same amount of money."

Stressing that "we cannot have equity of educational opportunity for Michigan children when some districts spend more than twice as much per pupil as others," Governor Milliken called for a more adequate and simplified school aid distribution process that would guarantee a quality education for each child, set statewide standards for teachers' salaries, encourage educational innovation and provide special remedial programs where needed.

Bringing this background to the May 20 conference, Mr. Phelps said the solution to Michigan's educational problems will require "not only more money but new structuring of how that money is to be allocated."

The educational reform commission, on whose recommendations Governor Milliken's program is built, saw three major achievements to be gained under State financing of schools, Mr. Phelps said. These were equity, excellence, and State acceptance of its constitutional responsibility for elementary and secondary education.

While the courts are demanding equity, Mr. Phelps said, there also is a strong practical reason for it. He explained: "It is Michigan's experience that a number of school districts have a high percentage of children who do not read, and ultimately have the problem of becoming employed. These districts are located where the local constituency does not have the personal income to raise the millage rates. So the children from these school districts are farther behind; they cannot compete on the labor market; they have difficulty with the basic skills; they have greater problems in society."

Excellence, Mr. Phelps said, is more than expenditures and pupil-teacher ratios; it requires effective measurement of the results of education and corrective steps where weaknesses are found.

"I think you can go into a poor school district and find

excellent education, just as, conversely, you can go into a wealthy school district and find poor teaching." Through its new assessment program, he added, the State of Michigan is "trying to find out just where these large pockets of non-achievers are and see if we can develop programs to give them additional resources."

Noting again that equal dollars do not necessarily mean equal educational opportunity, Mr. Phelps said there is "a large variance between the cost of doing business in education in various parts of the state." One example: a $4,000 salary difference from the Upper Peninsula to the Detroit metropolitan area for a comparable teacher.

"We are in a dilemma," he said. "Do we bring everybody to the top, which financially is such a high jump that it becomes prohibitive? Or the reverse, do we go to a statewide average, reducing the salaries in the metropolitan area? . . . In a highly organized, labor-oriented State like Michigan you can't get away with it. I think initially, at least, we have to deal with this issue by saying that there will be some kind of differential. There will be more dollars allocated to the urban area, recognizing that their cost of doing business is greater than in rural areas. Over a period of time, we will see that the salaries come together."

The Michigan proposal to replace the school property tax with a personal income tax increase and a new value-added tax would leave intact the property tax for local government services.

Speaking at the May conference, Mr. Phelps said: "The taxation issue is meeting with great support. People seem tired of the property tax and welcome a tax shift." But he predicted that the issue of distribution would be a greater obstacle to moving the program through the legislature.

For Minnesota, Fair Financing

In his 1971 Budget Message to the Minnesota Legislature, Governor Anderson recommended a shift away from heavy reliance on the property tax for schools and a new formula for determining State aid.

The Governor's program, which he labeled "Fair School Finance for Children and Taxpayers," would increase State support of school operating costs in Minnesota from the 43-percent level of the 1970-71 school year to 70 percent over a two-year period.

Copies of the education portion of Governor Anderson's

budget message were distributed to participants in the Conference on State Financing of Public Schools.

Striking at the heart of the school financing problem, he said:

"It is hypocritical to state that property taxes are local and that they are not therefore the result of State action. The scandalous property taxes which today are literally driving Minnesotans from their homes are the direct result of legislative failure to properly fund education at the State level from non-property sources.

"It is dishonest to speak of two tax systems – State and local – as if each existed without effect on the other. Minnesota has a single tax system, and the taxes all come ultimately from one source – your pocketbook. We cannot look at any one tax source without looking at its effect on other sources – at every level of our government."

The problem in Minnesota, under the old system, as the Governor summarized it in his message, is that "we decide how much the State will pay in advance and leave the burden on the local property tax."

The solution, he said, is to do just the opposite – "limit the amount to be raised from property taxes and assume the rest of the burden from State non-property sources."

The Minnesota Constitution directs the legislature to "establish a general and uniform system of public schools." But in 1970, the Anoka school district had to levy a tax of $581 on a $20,000 home to spend $536 per pupil for school costs, while the Golden Valley school district nearby levied only $369 on a similar home in order to spend $837 per pupil. That meant the Anoka district had to levy 30 percent higher taxes on a home of the same value to provide only 64 percent as much per pupil as Golden Valley.

What Governor Anderson proposed in his budget was to start with the total anticipated cost (excluding capital outlay and debt service) of educating the school-age children in Minnesota – $780 per pupil for the first year of the 1971-73 biennium and $819 for the second year. Then, the legislature would set a uniform statewide millage levy – to be collected and spent at the local level – that it viewed as "the absolute maximum that property taxes can bear in paying for public school maintenance costs." The State would pay the difference.

The Governor provided an additional $390 million in his budget to make up the increased State share. By the second year of the biennium, he said, 70 percent of school operating funds would come from State non-property sources.

"School districts would continue to use the property tax as a source of revenue for capital outlay and debt service. And school districts could levy property taxes to meet cost of living increases and whatever special levies are approved by referendum.

"The plan does not increase total spending on elementary and secondary education beyond present estimates of those costs for the next two years," Governor Anderson said. "Instead, it develops a system to finance those costs that do not rely so heavily on property taxes. Within the costs estimates, state expenditures increase."

As explained to the conference by Mr. Boddy, one feature of the plan was designed to drive spending in each school district toward the State median for the cost of education per pupil by gradually increasing the pressure through the aid formula.

With each succeeding year, schools spending far below the median figure would get more and more State aid to help them raise their expenditure level toward the median. Conversely, schools spending well above the median would get less aid each year as an inducement to lower their costs.

As to local supplementation, any district could automatically go 10 percent above the median by raising its own money. Those that wished to go more than 10 percent above the median would be permitted to do so, but for every dollar they raised, 50 cents of their State aid would be taken away. Thus, they would have to raise $2 to get $1.

"The background of the problem in Minnesota is not a particular problem of the schools," Mr. Boddy told the conference. "The problem of educational finance, however, is one of the symptoms of a much more general problem which is just coming to be appreciated . . . . our tax system and our need system are out of phase.

"Minnesota is sort of an average of the country. Since 1967 we have had a 3-percent sales tax . . . . We have had ever since 1933 a rather heavy and progressive income tax. So we use both of those major revenue producers in our State revenue system. The result is a State system which is perhaps a little responsive to growth, but not as responsive as the Federal system.

"The local system is, as in all areas of the country, dependent on the property taxes, and least responsive to economic growth.

"We have come to recognize over the last few years that the property tax is the tax of last resort. The property tax at the local level is a very bad tax indeed. It is the equivalent of a 20- to 25-percent sales tax on housing, for example, which, when you

look at it that way, is an incredible indictment of our society's priorities."

Noting that there are "tremendous disparities" at the local level, Mr. Boddy said:

"It is not so much that we expect everybody to raise the same amount of money. But at least it seems equitable to us in Minnesota that if you wish to raise the same amount of money it ought to take the same amount of effort. And the question is how do you measure the effort.

"Our state aid program has pretended to be an equalization program. That took a kind of effort, effort measured entirely by assessed valuation per pupil. The actual effect of equalization was that only 30 percent of the aid to education had any equalizing effect at all, 70 percent was in some sense across the board – nonequalizing. And so we found out that our present system which pretended to be an equalization system on the education side, did not in fact give that."

Shortly before the 1970 election, the Citizen's League in Minneapolis-St. Paul suggested that "ideally the State should take over 100 percent of the median cost of education in the State," related Mr. Boddy, who was a member of the study group.

Although both candidates initially endorsed the proposal, he said, "the Republicans began to have some second thoughts and made the educational aid program an issue. Mr. Anderson, who was the Democratic nominee and who became Governor, had endorsed it thoroughly and stayed with it. But the Republicans criticized the program in terms of the massive increase in taxes required at the State level and campaigned on that issue . . . . It became *THE* issue in the campaign to a very large extent.

"The Governor's program, which said in effect that the State will be responsible for the complete financing of education, was a major change," Mr. Boddy related.

"The reason for the political impact of this became clearer as the legislature met. It found itself no longer in a position of saying, 'We aren't responsible for the property tax; that is the local responsibility.' It has become clearly evident to everyone in the State that what the legislature *does* is set the property tax in the communities by what it does or doesn't do."

For Delaware, More Local Effort

The strongest voice raised against full State funding of schools was that of Delaware's Governor Peterson, who addressed the conference luncheon.

Governor Peterson agreed that centralized financing could have advantages in reducing the wide discrepancies in resources available for each child's education across the State. But he contended that raising the necessary funds to shift the school-financing burden from the local districts to the State level would cause enormous fiscal problems for the States.

The goal, Governor Peterson said, should be centralized financing of 75 to 85 percent of school operating costs with State and Federal funds combined.

"Approximately 15 to 25 percent of financing should remain with the local school districts to insure that interest which always stems from significant participation in the expense of our most important State function – education," he said.

In Delaware, the Governor related, the State's share of elementary and secondary school support had dropped from 92 percent 25 years ago to 71 percent in early 1971 "as local school districts exercised their prerogative to raise local funds to augment what the State was willing to make available."

"In only the last 10 years," he added, "the percentage of aid supplied by the State has slipped from 88 percent to 71 percent, with the Federal portion increasing from 1.5 percent to seven percent and the local share increasing from 10 percent to 22 percent of the total.

"This is in spite of massive increases in the absolute level of State expenditures for elementary and secondary schools. All of education is getting about 56 percent of total State revenues.

"Even with a 12-percent per year increase in State support per child in Delaware during the first two years of my administration, the percentage share of total public school costs borne by the State has increased only slightly," Governor Peterson said.

The Delaware Governor stressed the fiscal impact at the State level of a switch to centralized school funding and suggested it is not politically palatable for governors and legislatures to raise the needed revenue.

In fiscal 1969, he said, even if the Federal Government had picked up all State and local welfare costs, a shift to 100-percent State school funding would have cost an additional $105 million in North Carolina, then at 80 percent, another $700 million in

Pennsylvania, then at about 50 percent, and an added $1.1 to $1.4 billion in New York and California.

Governor Peterson said a study of eight States, which now bear from nine to 80 percent of school costs, showed in each case that they would have to raise personal income tax rates by one to 4.5 percentage points, or the general sales tax rate by one to five percentage points, or a combination of both, to accomplish full State funding.

(In his remarks, the Governor did not take note of the school-financing plight of many local areas already suffering from municipal overburden, nor did he mention any of the arguments frequently made that the property tax is a fiscally inferior instrument for financing education.

(Proponents of State financing of education, including ACIR, take the position that it will relieve the tremendous pressure on the property tax as a source of school money and free a portion of the local property tax base to pay for other, strictly local services.)

Governor Peterson also contended that centralized school financing would not assure equal educational results.

"Adequate education of socially or racially disadvantaged young people almost certainly will take more resources per child than the average," he said. The same point was made by others at the conference who advocate full State funding with special provisions to take care of such problems.

Warning that citizen interest and local participation could be weakened without the threat of "a bigger tax bite" to keep the citizen's attention, the Governor said:

"Schools and the whole educational establishment are already accused – and in some cases justly – of not being responsive. If they don't have to raise local tax money, the one *real* opportunity for communication disappears.

"How are we going to insure real citizen participation and involvement at the local level if most of the key decisions are made in the statehouse?"

He also enumerated these additional concerns:

"If collective bargaining negotiations on salaries and benefits are transferred to the State level, work stoppages will not be confined to one or several districts; education in a whole State could be shut down.

"What makes us think that 100-percent State funding of schools will improve education? The only education systems in the continental U.S. directly under the legislatures are State departments of education. And history has demonstrated how poorly

Departments of Public Instruction are treated by the legislature versus a local district whose board is concentrating exclusively on education.

"Mayors, city councils and county commissioners have been envious for years of the fiscal and operational independence of school districts. Are the local school districts short-sighted in seeking essentially complete fiscal dependence on one or two distant political groups?

"We need a high level of education for all," Governor Peterson said, "but, on top of this, we need the opportunity for local districts to innovate and show the way. Monolithic State leadership could lead to egalitarian mediocrity."

Chapter Three

Major Issues

Proposals to shift the burden of public school financing to the State level raise a broad spectrum of issues – ranging from the merits of the property tax and how it should be used, to the advantages of local control in maintaining diversity and educational vitality, and the relatively new concept of measuring how effectively the education dollar is being used.

These were among the issues debated at the Conference on State Financing of Public Schools, following the presentations from New Brunswick, Michigan, Minnesota and Delaware.

The Property Tax

Nobody likes taxes, but a lot of people like the property tax least of all. It is one of the most damned and discredited institutions in the nation, yet one of the most productive. Localities raise seven of every eight dollars of their own revenues from the property tax. It is only imperfectly related to ability to pay, economic growth or benefits received. And it tends to

discriminate against low-income people, particularly the elderly who live on fixed incomes.

Feeling runs high on the property tax, as was shown by the discussion of the conference.

"Property taxation of any kind is irrelevant in our society today and should be quickly abolished," asserted Herrick Roth, President of the Colorado Federation of Labor, AFL-CIO, and a former school teacher and state legislator.

"Most people think of property taxation only in terms of the electorate – the homeowner and the voter and the renter whose rent is raised. They don't think of it in terms of the corporate property, which cannot be properly assessed, anyway you take it, because some property produces income and some property does not."

Mr. Phelps, Administrative Assistant for Education to the Michigan Governor, voiced a similar opinion.

"The property tax in most areas, especially in Michigan, is not an equitable tax," he said. "Assessment practices are not good at all. People on fixed incomes are very hard hit. And, it doesn't hit business equally. Those big automobile companies pay large property taxes and other companies who have just as large a number of people employed pay a relatively small portion."

State Senator Bryce Baggett of Oklahoma City, Oklahoma, went further: "I think it is inevitable – and it is only a question of time – that the property tax will be repealed, either by the voters who reject the levels you have to attain to support education or by the people who recognize that in a changing economy the taxation of one particular form of ownership of wealth and allowing other forms of wealth to escape taxation is so utterly discriminatory between citizens as to be unacceptable."

Mayor Frank N. Zullo of Norwalk, Connecticut, on the other hand, could foresee no time when the property tax would be repealed.

"I think we are kidding ourselves when we say any solution is going to eliminate any tax," Mayor Zullo said. "I think that what we are concerned about is that any tax we do pay is a fair tax, with the people participating both in terms of wealth, in terms of property, in terms of use. The people will end up with three taxes eventually no matter what the system is that we come up with – a use tax, an income tax, and a property tax."

Mr. Boddy, Chairman of the Minnesota Governor's Council of Economic Advisors, defended the usefulness and desirability of some form of property tax.

"I would argue that the property tax on land – if you abolished it – would produce a tremendous capital gain and will lead to vast withholding of land from use, and a lot of other dire consequences," Mr. Boddy said. "In respect to the 'building' part of real estate, the case is very much different; that is a very bad tax and we ought to be able to get away from it. But, in the Minnesota context, we would have to triple the income tax to raise the same amount of money that the property tax yields. We'd have to multiply the sales tax rate by five to raise the same money as the property tax brings in."

Senator Baggett asked Mr. Boddy: "Admitting that land taxation has a valuable social function in preventing the mortmain and the holding of property from highest and best use, how can you justify the taxation of one form of wealth and for support of a primary function of government, while other equally available forms of wealth holding are not equally taxed?"

Mr. Boddy answered: "In the first place, society itself creates most of the increase in the value of land. And taxation is one way of recovering at least some of this. The second thing is the land can't move. You tax incomes too high and people leave, and so on and so on. So that the problem of administering very high and particularly differential levels of taxation between States brings a terrific problem of competitive effects. And I think each of these two things get in the way of a lot of reform."

Contending that the State actually imposes the rate of local property taxes and the localities are helpless to do anything about it, State Representative John A. Menge of Lime, New Hampshire, said:

"The State assigns the functions. Remember these are not local functions. The local communities did not decide whether they were going to offer education or welfare or whatever other services there might be. Those services were assigned to them willy-nilly by the State and the local communities are creatures of the State. They were created the way they are, with the boundaries they have, as a result of State action."

Local Control

The question of local control and how it can be preserved if local districts are relieved of the school-financing burden is another major issue. ACIR feels that "once liberated from the necessity of selling local bond issues and tax rate increases, school

boards and superintendents would be in a better position to concentrate their efforts on the true interest of local control – namely the nature and quality of education that is provided for the children of their locality."

In support of this position, Mr. Phelps related the experience of a friend who is now the president of a school board:

"He spent his first eight months, full time, collective bargaining. Then once the board had arrived at an agreement, he spent the next eight months trying to get a millage levy election through. After a total of 16 months in office, he said to his board, 'I have yet to talk about education to anyone in the school district. Everything is going to come to a standstill in this board until we resolve the problems of education, problems of curriculum, and languages.' And he spent the next two months insisting that the board discuss the problems of education. Then he got caught up in the cycle again, and the last time I heard from him, nothing was being resolved on education issues."

Under Governor Milliken's plan, Mr. Phelps said, the local school districts would in fact have local control "if the State assumed its responsibility for funding the schools . . . because they would have the complete option of whom they hire and the qualifications and the procedures used, and how teachers are allocated in the classrooms and how they are supervised – completely local functions."

From his experience in Canada, Mr. Malmberg took a dimmer view of the prospects of local control with State funding.

"Generally, there is going to be stagnation in local interest in instruction, in trying to make better provision for individual students, because the local districts don't have it in their responsibility to control the arm of the Province as it is laid down," he said.

Governor Peterson contended that there can be no true local control and responsibility without a substantial local tax effort.

He quoted "a wise school man" as saying: "The give and take within the school district, informing, enlightening and *selling* the needs of education to the electorate has been a healthy and long-term effort for everyone concerned. A headache? Yes. Frustrating? Yes. Occasionally detrimental to the short-term education of some children? Yes. Beneficial to the long-term best interests of public education? Absolutely!"

However, Paul Cooper, Director of the Maryland Department of Fiscal Services, argued that the amount of local autonomy and local initiative in the school system is tied to other factors than

merely the amount of State aid provided and Governor Peterson's own State of Delaware is a prime example.

"It all starts out with the concept the State takes as to how much control you are going to have," Mr. Cooper said. "If there is any State in this nation that has retained a partial degree of local autonomy, it is the State of Delaware."

Although local districts in Maryland have had to furnish 60 to 65 percent of the funds to operate their schools, compared with only 22 percent in adjacent Delaware, he said, the school systems in Delaware "have far more local autonomy, in my experience, than in Maryland."

"So I think that there are answers to this problem of local autonomy and local initiative in any kind of system that you devise," Mr. Cooper concluded. "I think that there are answers to it in the 75- to 80-percent range. I think there are answers to it in the 90-percent range. And I suspect a good close look at Delaware would show how."

Evaluating Effectiveness

We talk a lot about financing, pouring [illegible] education, and the great need for more education, but rarely do we talk about results," Governor Peterson said. "The last time all the members of the school boards . . . met with us to present to me and the legislators their plans for the coming year – in other words, how many dollars they want – I told them I had never seen them tell anybody what results they were going to get from it. I challenged them and asked them to come back next year when they ask for money and tell us what they are going to buy with that money, what results are they going to get."

Assessing the effectiveness of programs such as education is complex and delicate, a highly controversial field.

"One of the problems which Governors and legislators have constantly is that too often they are told by members of the educational profession that they shouldn't ask questions like that," said ACIR Chairman Robert E. Merriam, who presided at the conference.

"And there is nothing that gets the hackles of the Governor or the legislator up faster than somebody telling him it is none of his business whether there is or is not a way of measuring achievement for the dollars they are spending. The public and the officials who get the blame for the tax structures are going to start

asking those kinds of questions."

In any effective revenue distribution system, Mr. Merriam said, there must be definitely established priorities and a reliable means of assessing the results gained for the money that has been spent. Up to now, he said, government at all levels in the federal system has failed, both in the setting of priorities and in evaluation of results.

The Michigan and Minnesota proposals both try to build in an assessment program. In Michigan, the State Department of Education is working closely with local school boards to develop testing programs for this purpose. Minnesota wants to experiment with having every school system and the schools within it identify its objectives and report to its citizens on the degree to which they have attained them by whatever methods they develop.

The Education Commission of the States has undertaken an open-ended project to develop a program of National Assessment of Education. The assessment project has been conducting exercises in ten subject areas and in four age groups to determine what people know as the result of going through the educational process.

Robert B. McCall, Deputy Director of the Education Commission, told the conference: "It has been a difficult uphill battle in many instances. I am sure that there are some people right here in this room who will not agree with all the goals of the National Assessment. And, quite frankly, we at the Education Commission of the States and the staff of the National Assessment Project see some areas where it needs to be changed right now. But it is an attempt to get at a form of accountability."

Norman Karsh, Executive Director of the President's Commission on School Finance, which also is looking into the subject of effectiveness, said: "It is disheartening that there is in fact no basis or very little basis for measuring effectiveness. There appear to be extremes on either end where money does have an impact, but just what they are or what impact they have is difficult to say."

Herrick Roth, the labor leader from Colorado, asserted: "The best assessment of the school system is: Do the people who are required to go to it drop out? And if you put in twice as many dollars and they still drop out, it is pretty damn bad."

Mr. Cooper, the Maryland Fiscal Services Director, said it is going to take a long time to solve the problem of accountability, but that should not delay adequate funding of education in the meantime.

"I think the question . . . is, 'Can dollars alone be allowed to prevent any child from having an equal opportunity?' The fact that you put the dollars there is not going to guarantee it. But, the accident of dollars concentrating in this district or that district – behind an arbitrary boundary line – should not be allowed to determine the level of education a child will get . . . . At least, you can remove the dollar barrier, and solve this business of accountability, sometime in the future. It isn't going to be solved tomorrow," he concluded.

Federal Incentives

State assumption of the responsibility for education financing is generally viewed as a matter between the State and the cities, although the Federal Government might ease some of the fiscal burden by assumption of welfare costs and enactment of a revenue sharing program. However, U.S. Representative John G. Dow of New York has introduced a measure in Congress to provide Federal incentives for States to assume a bigger share of public education support. As explained to the conference, his bill (H.R. 6521) is in two parts and was an effort to put the stimulus of Federal aid behind ACIR's recommendations for State school funding.

First, it would reward those States which have assumed 50 percent or more of the burden by allowing them to receive their Federal aid to education as a block grant. The second part proposes a formula which would reimburse part of the cost to States that assume a greater percentage of the State-local educational outlays.

Construction

Most of the programs and proposals discussed by the Conference on State Financing of Public Schools dealt with operating costs of schools, not capital construction.

The Maryland legislature in 1971 voted to assume the full burden of approved construction costs in the State. Earlier, the State had picked up the full cost of transportation and special education. There were proposals for State takeover of all operating costs, but these were voted down. The move to pick up the construction cost burden was viewed as a step forward and a

compromise.

However, Mr. Cooper had some reservations: "If it is looking toward an eventual assumption of full cost of everything, then it may have a logic to it. On the other hand, if it is an isolated thing, we could be unequalizing in the process. Very obviously, we are going to be pouring tremendous support into the suburban areas which are already overfinanced on any national equalization basis."

Epilogue

The ACIR Conference on State Financing of Public Schools provided a forum for airing a controversial proposal. The group was not a deliberative body empowered to reach conclusions or to make recommendations, but the spirit of the discussions reflected the urgency of the problem.

As school opened in the fall of 1971, more than three months after the conference, there was one major change in the school-financing picture.

It did not come from the statehouses. The legislatures in both Michigan and Minnesota recessed in late summer without approving their governors' proposals for State funding of schools.

In Michigan, it was a side issue – whether the State should have a graduated income tax – that mired down educational reform. In Minnesota, the legislature passed – and the governor vetoed – a tax package that failed to provide the recommended major shift to non-property sources for school funds.

The change in the school-financing picture did not come from Congress either. No hearings had been held on Representative Dow's bill by early fall.

The new factor in the educational equation was provided by

the California Supreme Court.

In a 6-to-1 decision that grabbed headlines across the country, the Court on August 30 held that heavy reliance on unequal local property taxes "makes the quality of a child's education a function of the wealth of his parents and neighbors" and thus denies "equal protection" under the 14th Amendment to the U.S. Constitution.

The California decision, in the case of *Serrano v. Priest,* struck down that State's entire system of financing public schools on grounds that the system was providing more money for rich children than for the poor.

The nationwide implications of the ruling, which held the "wide disparities" in revenue per child to be unconstitutional, were readily apparent. Every State except Hawaii has the same type of decentralized school-financing system as California, with disparities among districts in spite of equalization efforts.

"Districts with small tax bases simply cannot levy taxes at a rate sufficient to produce the revenue that more affluent districts produce with a minimum effort," the California Supreme Court declared.

"Thus, affluent districts can have their cake and eat it too," the Court asserted. "They can provide a high quality education for their children while paying lower taxes. Poor districts, by contrast, have no cake at all."

The *Serrano* case was the first in which a Court has upheld the argument that such disparities between districts are unconstitutional. A lower California court had ruled against the plaintiffs. Similar suits previously had failed in Illinois and Virginia, and others were still pending in Michigan, Texas and Wisconsin.

There was an immediate renewal of interest in court action to force equalization in funding for education. Some felt that *Serrano v. Priest* ultimately could have as strong an impact on school financing as *Brown v. Board of Education* had on school desegregation and *Baker v. Carr* had on reapportionment. Others pointed out that the principle must really be tested before the United States Supreme Court before its impact can truly be known.

At any rate, the Advisory Commission on Intergovernmental Relations, in its *Tenth Annual Report,* issued January 31, 1969, foresaw what might happen if governors and legislatures could not accomplish the necessary reforms to assure equality of opportunity in school financing. ACIR warned:

"Quite possibly, judicial intervention, rather than guberna-

torial or State legislative leadership, will prove to be the vital ingredient in this – one of the most critical of the current urban crises. A veritable revolution in local government structure and financing in the United States would ensue if the judiciary should adopt the doctrine that every pupil should have substantially the same fiscal backing or – in the case of the disadvantaged youngster – substantially more."

The California decision has lent currency to that warning.

Appendix

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Program

CONFERENCE ON STATE FINANCING OF PUBLIC SCHOOLS
Shoreham Hotel Washington, D.C. May 20, 1971

PLENARY SESSION

10:00 a.m. to Noon

Presiding:
ROBERT E. MERRIAM
Chairman, Advisory Commission on Intergovernmental Relations

The New Brunswick "Equal Opportunity" Program

FREDERIC J. ARSENAULT
Principal Secretary to Premier Richard Hatfield, New Brunswick

JAMES F. O'SULLIVAN
Chairman, Cabinet Secretariat, New Brunswick

W. W. MELDRUM, Q. C.
Barrister, Solicitor, Notary, Former Minister of Education, New Brunswick

P. J. H. MALMBERG
University of New Brunswick, Former Director of Curriculum and Research, Department of Education, New Brunswick

General Discussion

LUNCHEON SESSION

Noon to 2:00 p.m.

Presiding:
ROBERT E. MERRIAM

Address: HONORABLE
RUSSELL W. PETERSON
Governor of Delaware, Chairman, Education Commission of the States

PLENARY SESSION

2:00 p.m. to 4:30 p.m.

Presiding:
ROBERT E. MERRIAM

State Proposals and Prospects

The Michigan Proposal

JAMES L. PHELPS
Administrative Assistant to the Governor for Education, Michigan

The Minnesota Proposal

FRANCIS M. BODDY
Chairman, Governor's Economic Advisory Council, Assistant Dean, Graduate School, University of Minnesota

General Discussion

Concluding Observations

Conference Participants

Mr. Frederic J. Arsenault
Principal Secretary to Premier Hatfield
Fredericton, New Brunswick, Canada

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President
National Educational Association
Washington, D.C.

Senator Bryce Baggett
Oklahoma State Senate
Oklahoma City, Oklahoma

Judge William O. Beach
Montgomery County Judge
Clarksville, Tennessee

Mr. James Blum
Budget Analyst
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Assistant Dean of Graduate School
University of Minnesota
Minneapolis, Minnesota

Senator B. Mahlon Brown
Nevada State Senate
Member, ACIR
Reno, Nevada

Mr. Tyrone Brown
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Mr. Nick T. Ugrin
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Mr. Troy Westmeyer
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Legislative Commission on
Expenditure Review
Albany, New York

Dr. Arthur E. Wise
University of Chicago
Chicago, Illinois

Mayor Victor R. H. Yarnell
Reading, Pennsylvania

Mayor Frank N. Zullo
Norwalk, Connecticut

Published Reports

Advisory Commission on Intergovernmental Relations[1]

Coordination of State and Federal Inheritance, Estate and Gift Taxes. Report A-1, January 1961. 134 pages.

Investment of Idle Cash Balances by State and Local Governments. Report A-3, January 1961. 61 pages (out of print; summary available).

State and Local Taxation of Privately Owned Property Located on Federal Areas. Report A-6, June 1961. 34 pages, offset (out of print; summary available).

Local Nonproperty Taxes and the Coordinating Role of the State. Report A-9, September 1961. 68 pages.

Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas. Report A-13, October 1962. 135 pages.

*The Role of the States in Strengthening the Property Tax. Report A-17, June 1963. Vol. I (187 pages) and Vol. II (182 pages). $1.25 each.

Statutory and Administrative Controls Associated with Federal Grants for Public Assistance. Report A-21, May 1964. 108 pages.

The Intergovernmental Aspects of Documentary Taxes. Report A-23, September 1964. 29 pages.

State-Federal Overlapping in Cigarette Taxes. Report A-24, September 1964. 62 pages.

Federal-State Coordination of Personal Income Taxes. Report A-27, October 1965. 203 pages.

Building Codes: A Program for Intergovernmental Reform. Report A-28, January 1966, 103 pages.

*State-Local Taxation and Industrial Location. Report A-30, April 1967. 114 pages. 60¢.

*Fiscal Balance in the American Federal Systems. Report A-31, October 1967. Vol. I, 385 pages. $2.50; Vol. 2 Metropolitan Fiscal Disparities, 410 pages. $2.25.

*Urban and Rural America: Policies for Future Growth. Report A-32, April 1968. 186 pages. $1.25.

*Intergovernmental Problems in Medicaid. Report A-33. September 1968. 122 pages. $1.25.

*State Aid to Local Government. Report A-34, April 1969. 105 pages. $1.00.

*Labor-Management Policies for State and Local Government. Report A-35, September 1969. 263 pages. $2.00.

*Making the Safe Streets Act Work: An Intergovernmental Challenge. Report A-36, September 1970. 78 pages. $1.00.

☆ U. S. GOVERNMENT PRINTING OFFICE : 1971 O - 482-189 (3145)

*Federal Approaches to Aid State and Local Capital Financing. Report A-37, September 1970. 71 pages. $.75.

Factors Affecting the Voter Reactions to Government Reorganization in Metropolitan Areas. Report M-15. May 1962. 80 pages.

*Performance of Urban Functions: Local and Areawide. Report M-21, September 1963. 281 pages. $1.50.

State Technical Assistance to Local Debt Management. Report M-26, January 1965, 80 pages.

*A Handbook for Interlocal Agreements and Contracts. Report M-29, March 1967. 197 pages. $1.00.

*Federalism and the Academic Community: A Brief Survey. Report M-44, March 1969. 55 pages. 60¢.

*Urban America and the Federal System. Report M-47, September 1969. 140 pages. $1.25.

1970 Cumulative ACIR State Legislative Program. Report M-48, August 1969.

*The Commuter and the Municipal Income Tax. A Background Paper. Report M-51, April 1970. 30 pages. $.25.

*Revenue Sharing – An Idea Whose Time Has Come. Report M-54, December 1970. 29 pages. $.30.

*State Involvement in Federal-Local Grant Programs. A Case Study of the "Buying In" Approach. Report M-55, December 1970. 71 pages. $.70.

*A State Response to Urban Problems: Recent Experience Under the "Buying In" Approach. A Staff Analysis. Report M-56. December 1970.

*State-Local Finances and Suggested Legislation, 1971 Edition. Report M-57, December 1970.

*Measuring the Fiscal Capacity and Effort of State and Local Areas. Report M-58, March 1971. 209 pages. $1.75.

Annual Report, Twelfth. Report M-59, January 1971. 25 pages.

*State Action on Local Problems in 1970. Report M-60, April 1971. 14 pages. $0.35.

*County Reform. Report M-61, April 1971. 31 pages. $0.40.

*The Quest for Environmental Quality: Federal and State Action, 1969-70 (includes annotated bibliography). Report M-62, April 1971. 63 pages. $0.35.

*Court Reform. Report M-63, July 1971. 31 pp. $0.40.

*Correctional Reform. Report M-64, August 1971. 13 pp. $0.30.

*Police Reform. Report M-65, August 1971. 30 pp. $0.40.

*Prosecution Reform. Report M-66, September 1971. 13 pp. $0.30.

New Proposals for 1972: ACIR State Legislative Program. Report M-67, August 1971. 98 pp.

[1] Publications marked with an asterisk may be purchased directly from the Superintendent of Documents, Government Printing Office, Washington, D.C. 20402. Single copies of other publications may be obtained without charge from the Advisory Commission on Intergovernmental Relations, Washington, D.C. 20575.